

# **1 FUNDING FOR STUDENT SUCCESS**

## **Overview**

In the 2004 Strategic Master Plan for Higher Education, the Higher Education Coordinating Board has set clear and measurable goals that focus on outcomes rather than inputs alone. However, the current state funding system for higher education is based on enrollments (inputs) rather than recognizing positive achievements like student success (outcomes).

To reinforce an outcomes-based approach, the board proposes that the state develop a new funding method to reward public colleges and universities for student success. Success may be defined in many ways, but the central concept is degree or program completion. The concept of funding success represents a significant change in conducting business and will take time to plan and implement.

During 2005-07, the board will lay the groundwork to support a change in the funding mechanism. The board proposes that higher education funding be apportioned on the basis of enrollment during 2005-07, but that the funding system be transformed beginning with the 2007-09 biennium. The HECB will collaborate with the state higher education community and the legislative and executive branches of state government in designing a new funding methodology and an action plan to put it in place.

Any new funding methodology must recognize the differences among Washington's colleges and universities. Consequently, the board believes the state should discuss with the individual colleges and universities the nature and expected level of student success that should be addressed in an outcome-based financing system.

## **Analysis**

The state budget currently funds each public college and university for a specified number of full-time enrollments (FTE) and each school manages its enrollment level accordingly. If a higher education institution falls below this level, the legislature sometimes has reduced funding to that institution. While colleges and universities do not necessarily want to exceed the budgeted FTE enrollment level by a significant amount, they certainly do not want to go under it. In a perverse way, a higher than expected level of student graduations could reduce an institution's student level and endanger its funding.

Although public colleges and universities monitor results and student successes, they are not as important as meeting enrollment targets from a financial perspective. Thus, graduation rates, time to degree, graduation efficiency, credits earned, and other measures often are secondary considerations.

### ***Washington's current funding methodology***

States generally choose one of two methods to fund their higher education systems: (1) "funding formulas" or (2) "cost-plus" or "incremental budgeting." Both methods are student-driven.

In practice, Washington currently uses "incremental budgeting." The legislature and governor begin with the budget from the preceding year and adjust for one-time costs and inflation to create a "base" budget. New items are funded as specific "policy decisions." Common policy enhancements include new enrollments, as well as salary and benefit increases. During a recession, across-the-board reductions in state funding are a common budget cut.

### ***A new bonus that rewards student success***

To implement "funding for student success," the state would accept the current higher education budget, as well as the current number of "successes earned" as a base. This approach protects current base funding for all colleges and universities. Funding for student success would be a policy addition to the higher education budget.

While this proposal does not focus exclusively on reducing time to degree, its focus on increasing the number of degrees should improve graduation rates for all students. As the chart below shows, a significant proportion of students who enroll in Washington's public colleges and universities do not earn their bachelor's degrees within six years and there is wide variation by race and ethnicity. A results-oriented financial incentive would encourage colleges and universities to closely monitor these students and inspire them to graduate.

<b><i>First-time, Full-time Students Seeking Bachelor's Degrees: Percentage of Students Who Graduated in Six Years</i></b> (Enrolled in Fall 1996 – Graduated by August 2002)					
	White	Asian	Hispanic	African American	American Indian
<b><i>UW-Seattle</i></b>	71%	71%	68%	54%	46%
<b><i>WSU</i></b>	64%	50%	51%	46%	53%
<b><i>CWU</i></b>	52%	41%	40%	38%	46%
<b><i>EWU</i></b>	50%	36%	43%	35%	46%
<b><i>TESC</i></b>	45%	59%	60%	50%	43%
<b><i>WWU</i></b>	65%	53%	53%	57%	50%

Source: Integrated Postsecondary Education Data System (IPEDS).

## **Implementation Plan**

There are many ways a funding-for-success system could be implemented:

- **Performance contracts that involve a formal pact between the state and an institution that spells out the obligations of both parties.** Specifically, the contract would detail the outcomes that would be delivered by the college or university and the resources that would be provided by the state to help achieve those outcomes.
- **Budget provisos that would define legislative expectations for a college or university in terms of degrees and performance targets rather than enrollment levels.** Currently, the most important performance measure of a college or university is whether it met or exceeded the full-time student equivalent enrollment target set by the legislature.
- **Calculating enrollment levels at the time of course completion rather than on the 10th day of classes.** Under this approach, student enrollment would be counted for state funding purposes only if students completed the courses, not if they just enrolled in them.
- **Changing the criteria for selecting high-demand programs for funding from delivering enrollments to producing results.** While the HECB's high-demand budget request was presented in terms of expanding enrollments, the strategic master plan goal for high-demand is stated in terms of program completions.

While the board's budget recommendations center on expanding enrollments, these enrollment recommendations are based on meeting the board's degree and performance target goals. For example, the board's goal for increasing the number of bachelor's degrees earned at public colleges and universities has a target by the end of the 2005-07 biennium that is roughly 2,100 degrees higher than what could be expected from current budgeted undergraduate levels. The board has assumed that it will take about 360,000 student credit hours of educational activity or 8,000 full-time equivalent students to produce these degrees (at 3.89 FTE students per bachelor's degree). The recommended funding level is \$6,303 per FTE student or \$24,500 per bachelor's degree.

Because a lag exists between the time when students enroll and when they earn degrees, the implementation of this proposal will require some thought during the 2005-07 biennium to determine the best approach.

### ***Recommendations***

***Following the 2005 legislative session, the HECB*** will work with the governor's office, legislative fiscal committees, and colleges and universities to gather the data and input needed to develop options for creating an outcomes-based funding system.

***By December 2005, the HECB*** will report to the legislature and governor on options for creating a new funding system, including the board's "preferred option." This report will identify any statutes that would need to be revised to support a new financing approach for higher education. The board also will include in its budget guidelines for the 2007-09 biennium (which are distributed in December of odd-numbered years) any institutional requirements related to the development of a new funding mechanism.

***By the end of the 2006 legislative session, the legislature and governor*** will adopt legislation to implement any necessary statutory changes.

***In September 2006, the colleges and universities*** will include with their 2007-09 operating budget proposals any information requested under the HECB budget guidelines related to the new funding system.

***By November 1, 2006, the HECB*** will submit its 2007-09 operating budget recommendations, which will incorporate funding of higher education based on success.

***In the 2007 legislative session, the legislature and governor*** will implement the new funding methodology in the 2007-09 state operating budget.

### ***Performance measures***

Actual performance measures for measuring student success would be based on the funding methodology adopted by the legislature and governor. The HECB, in consultation with the colleges and universities, will propose performance measures in December 2005.

### ***Estimated Costs***

- The estimated costs of implementing a "funding for student success" system are indeterminate.
- It is expected that an agreement to produce the current outputs would cost no less than is currently being spent. Current funding is already significantly less than funding received by similar colleges and universities in other states.

- If student successes are to be increased, additional resources will be required. Under the state's current funding system, the primary sources of these resources are state general funds and tuition revenue.

***Examples of ongoing related work***

The 2004 supplemental operating budget called for the governor's office, with assistance from the HECB, to work with the University of Washington and Washington State University to create a prototype of a research university performance contract. The prototype is to (1) reflect statewide goals and priorities of the legislature; (2) contain goals and commitments from both the universities and the state; (3) include quantifiable performance measures and benchmarks; (4) identify specific resources needed to implement the contract; and (5) include any other information deemed pertinent by the governor.

